THE IMPACT OF LOCAL FEDERALISM WITH CHINESE CHARACTERISTICS ON THE OUTCOMES OF HU JINTAO'S PRO-RURAL POLICIES

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ABSTRACT

Former Chinese President Hu Jintao launched campaigns to promote a more “scientific” development between 2002 and 2012 in order to build a “harmonious society”, indicating his determination to shift toward a more equitable, people-centered, and less GDP-oriented growth model. This was aimed at distancing himself from the pro-growth and pro-urban policies adopted by his predecessor Jiang Zemin in order to establish his authority. Hu rolled out a string of signature policies including the removal of agricultural taxes and granting rural subsidies to farmers in a bid to reduce their financial burden and increase their income. He introduced those reforms after showing a successful track record of reducing poverty while he was a local provincial head.

Despite all these efforts and strong track record, however, official data showed that China’s inequality actually worsened with the urban-rural income gap steadily widening during Hu’s tenure. This outcome is puzzling. Political scientists have not studied the puzzle in a systemic way before. I find that exploring the causal relationship behind the puzzle carries significance for the study on the unique Chinese political system and also contributes to the literature that analyzes central-local relationships in China. It also seeks to enrich the already abundant literature examining the elements that influence income inequality.

In this paper, I argue that the local federalism system with Chinese characteristics played a critical role in the outcome of Hu’s pro-rural policy. By referencing existing literature on local federalism, I argue that the degree of local compliance with the central mandate largely hinges on the extent to which local interests are aligned with central policies. This relationship is amplified and complicated by the four key components that form the federalism system with unique Chinese characteristics: a decentralized fiscal system, a dual existence of the horizontal and vertical commanding lines, a GDP-focused cadre evaluation system, and soft budgetary restraints. This paper adopts three case studies to illuminate various coping strategies that local bureaucrats use in response to Hu’s pro-rural policy. The local federalism theory has a strong capacity in explaining not only Hu’s policy puzzle, while can be also generalized to examine the outcome of other central policies, such as pollution-reduction and anti-corruption policies.

Keywords: local federalism, Hu Jintao, central-local relationship, decentralized fiscal system, inequality, rural policy, poverty reduction
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Introduction: The Puzzle

After Hu Jintao became the General Secretary of the Chinese Communist Party (CCP) in the fall of 2002, he broached the idea of building a “harmonious society” by promoting “Scientific Outlook on Development”, a concept adopted by Hu to advocate a more equitable, people-centered, and less GDP-oriented development model (Central Committee 2003). In order to meet these goals, Hu, over his decade-long tenure, introduced a series of policies seeking to reduce inequality between the rich and the poor and between urban dwellers and farmers, including the removal of agricultural taxes and reducing rural fees collected by local governments on farmers. Before becoming China’s top leader, Hu had accumulated rich experiences as the Party chief at several of the country’s poorest provinces successively. In the Guizhou Province, for example, he had a strong track record of reducing poverty and narrowing the income gap, creating a distinctive micro-oriented state model in contrast to the developmental state model pursued by other provincial leaders focused on chasing high gross domestic product (GDP) growth (Donaldson 2011).

Hu positioned himself as a populist leader to distance himself from his predecessor, President Jiang Zemin, whose pro-growth and urban-focused policies were seen by observers as designed to co-opt capitalists and promote urban development. Hu’s pressure to revise the Jiang-era policy also came from the serious problems in the economy, including corruption, unbalanced economic structure, and sluggish rise of rural income (Central Committee 2003). These problems threatened to induce rising social unrests and hurt the Party’s ruling legitimacy.

Although Hu introduced a series of policies and set the clear policy goals to support rural development and boost farmers’ income, and despite his successful experiment of poverty reduction in Guizhou, statistics showed that income inequality generally widened during Hu’s tenure that ran through 2012, as indicated by the Gini-coefficient index. The inequality gauge even
surged to peak levels during the 2008-2009 global financial crisis. While the Gini figures trended downward after touching the peak levels, they remained well above the levels before Hu took office. Independent economists estimate that the real Gini data probably shot to more than 0.5 and even at about 0.7 in the second term of Hu Administration, much higher than China’s official data and indicating the generally worsening situation. The rural-income gap also stayed persistently above the level before Hu took office.

The statistics suggested that Hu’s policy goals were not well achieved. This raises a puzzle (I refer to this as Hu’s policy puzzle, the puzzle, or the policy puzzle hereafter in this paper) that this paper aims to address: Why did Hu’s pro-rural policies fail to reach the targeted effects although they were introduced extensively in nationwide provinces, cities, counties, townships, and villages? Were there any systemic problems in the Chinese political system that hindered implementation of Hu’s policies?

While many theories may carry certain values of explaining the puzzle, this paper argues that local federalism is a key structural factor in China’s political system that hindered implementation of Hu’s pro-rural policies, despite having smoothened execution of the pro-growth policies rolled out by Jiang. Although China remains an authoritarian one-Party regime, the political system is not simply a top-down one. Instead, China has developed a unique system of local federalism, under which the local governments maintained strong autonomy in managing economic matters within their jurisdictions. At the same time, however, local bureaucrats have struggled to balance between stretched fiscal resources and high burden of fiscal spending under China’s decentralized fiscal system. The cadre evaluation system also drives them to chase fast local economic growth, as this is often the most decisive factor weighing on their career prospect. All these factors, which shape the local federalism system with Chinese characteristics, push
bureaucrats to actively support policies that most align with their primary interests while resisting those that likely conflict with their interests.

In this paper I apply the theory of local federalism with Chinese characteristics, a theory that has been developed and deepened by a number of scholars, to examine its profound impact in the local implementation of the rural policy in Hu’s era. I argue that the success of central policy implementation hinges largely on the extent to which local bureaucrats align their own political and economic interests with the center. The paper outlines and assesses each of the components of local federalism, while also using case studies to illuminate how these components work to shape local bureaucrats’ behavior. My research incorporates both existing literature on local federalism and also my own addition to the theory by identifying four critical components that shape various local coping strategies, which ultimately affected Hu’s policy outcome.

Political scientists have not yet paid enough attention to Hu’s policy puzzle outlined in this paper as an important phenomenon associated with the functioning of the Chinese political system. Nor have they examined in a systemic and theoretical way into the pervasive role of local federalism in causing the poor implementation of Hu’s pro-rural policy. My application of the local federalism theory in explaining Hu’s policy puzzle makes a new contribution to the China study in this field.

Structure of This Paper

The following part of the paper is structured like this: I first review the literature on local federalism and how it shapes the central-local relationships in China (Section 1). After that, I examine the local federalism system made up of four key components (Section 2). Then I discuss other causal factors linked to income inequality and why local federalism has its important and
unique capacity in explaining the puzzle (Section 3). In the following chapter, I review the pro-rural policies rolled out by Hu (Section 4), which is followed by analysis of two sets of data indicative of the inequality trend during Hu’s era (Section 5). To illuminate how the local federalism system works, I conduct several case studies on local behavior patterns in response to different central policies (Section 6), including the rural tax and fee reform (Case A) and the massive economic stimulus program during the global financial crisis (Case B). I also look into the rationale behind Hu’s poverty reduction in Guizhou to examine certain exceptional behaviors of provincial leaders and how they fit into the theory of local federalism (Case C). After that, I discuss whether Hu’s efforts to reform the political institution, in particular the rural electoral system, changed the incentives for local bureaucrats (Section 7). In the conclusion part, I summarize the impacts of local federalism on central policy outcomes.

Section 1: Literature Review

Scholars have developed much literature on local federalism, which have been used to explain the patterns of local government behavior and state-local relations in China. This paper borrows the literature on local federalism but does not simply copy the theory to explain the main puzzle. I deepen the literature by analyzing its main characteristics under China’s increasingly pluralized political system. I also use case studies to test the capacity of the local federalism theory in explaining its impact on central policy outcomes.

As Susan Shirk argues, “policy-making in China has become a pluralistic process involving hundreds of officials from various Communist Party and government departments” (Shirk 1993, 7). Some political scientists note that although the one-Party regime still controls the function of the overall political institution, including policy making and nomination of senior cadres, the
federalism of Chinese style allows local governments to have primary control over local economic matters (Montinola, Qian, and Weingast 1995). Some studies center on the different patterns of local bureaucrats’ behavior and their relationships with the central government, noting that “the fragmented, segmented, and stratified structure of the state promotes a system of negotiations, bargaining, and the seeking of consensus among affected bureaucracies” (Lieberthal and Oksenberg 1988, 352). The bargain between the center and the provinces appears in forms that can be either “explicit or implicit” (Zheng 2007a, 39).

Part of the federalism characteristics in China derives from its decentralized fiscal system (Landry 2008, 3). Bureaucrats, due to their nature as self-interested utility maximizers, base their utility functions on rational costs and benefits analysis (Fan 2014). Some define federalism in China as market-preserving, which contributes significantly to the success of China’s economic reforms without political reform (Montinola, Qian, and Weingast 1995). However, some others point out that if hard budget constraints are lacking while the central government is unable to prevent local protectionism, increased economic autonomy of local governments may not promote growth, but may instead inspire coping strategies that weaken central state capacity and contribute to “market-thwarting conditions” (Tsai 2004). These studies and discussions show local federalism can lead to sharply different outcomes – either market preserving or market thwarting. The varying outcomes aside, however, this paper argues that local bureaucrats follow a coherent rationale by adjusting their coping strategies depending on the extent to which their own interests align with the central government’s mandates.

Scholars accordingly categorize local bureaucrats’ coping strategies in various ways. Zheng Yongnian says the central and local relations incorporate the characteristics of coercion, bargaining, and reciprocity (Zheng 2007a, 54). Some analyze the incentives that drive local
behaviors, saying local interests could include salary, power, and patronage, as some researchers note (Niskanen 1994, 232), indicating that local bureaucrats’ calculation takes account of political career, potential economic returns, as well as their connections with the upper authorities.

Jae Ho Chung focuses more on analyzing local bureaucrats’ behavior, noting that they seldom go to extremes in coping with the central policy, neither to totally obey the center nor absolutely reject it (Chung 2000, 6). Instead, he summarizes three more frequent patterns of local behavior, which are: “pioneering”, referring to the behavior to carry out certain central policy far ahead of others; “bandwagoning”, meaning local officials tread cautiously by keeping a not too fast nor too slow pace of policy execution; and “resisting”, referring to either non-compliance or delay in implementing policy, “or bending it to serve parochial interests” (Chung 2000, 7).

Chung’s classification summarizes a large part of local behavior patterns, which I will reference in the section of case studies to assess the causal factors leading to Hu’s policy failure. Meanwhile, I add an important pattern of local behavior to Chung’s model to make it more complete. China’s local bureaucrats often adopt a “competing” strategy for limited economic resources or chances for political promotion. Kellee S. Tsai notes that localities “compete with one another for factors of production”, in what she describes as “protectionist behavior” that sometimes hinders healthy economic competition (Tsai 2004).

Local federalism played a more market-preserving role in Jiang’s era as his pro-growth policies align greatly with local interests. In contrast, the practices of local bureaucrats showed a more resisting effect toward Hu’s rural policies as their interests largely conflicted with those of the center. The local federalism theory can also be expanded to explain the slow progress or sometimes setbacks in the local implementation of China’s policies, such as anti-corruption, or the environmental policy, as such policies are more easily to create conflicts with local interests and
therefore require close state-local coordination to ensure smooth execution. To ensure good implementation of such policies, the central leadership must change the incentives to guide local authorities’ behavior so as to mitigate potential central-local conflicts.

Section 2: Local Federalism with Four Main Characteristics

The process of China’s decentralization in the post-Mao Zedong era began in the 1980s when Deng Xiaoping introduced the “reform and open-up” policy. He abandoned the long-existing central planning system and boost local bureaucrats’ role in economic activities. He took steps including delegating the management of state-owned enterprises (SOEs) to local authorities, establishing special economic zones for pilot economic reforms, and authorizing lower-level governments to set prices of certain commodities and utilities, although the ruling Party has retained the control over major policy-making and the political institutions.

In this section, I outline four main components that shape the unique local federalism system in China (Figure 1): 1) a decentralized fiscal system, 2) a fragmented dual-commanding-line administrative system, 3) a GDP-centered local-cadre evaluation system, and 4) soft budget constraint with an ineffective system to monitor the use of fiscal funds. The four characteristics work together to greatly reduce local governments’ incentives of providing public goods necessary for improving the livelihoods of the poor and reducing inequality.
First, China’s decentralized fiscal system is core to fiscal resources appropriation in China. Local governments are primarily responsible for making investment decisions on local infrastructure building, real estate construction, as well as allocating much needed funds to provide local public goods, including education, poverty reduction, and healthcare. The 1994 fiscal reform boosted the share of fiscal revenue collected by the central government to more than half from merely 22.0 per cent in 1994 (Table 1). Local governments, however, saw their slice of fiscal

Table 1: Central and Local Government Fiscal Expenditures in Government Spending
(Source: National Bureau of Statistics Yearbook 2011)

<table>
<thead>
<tr>
<th>Year</th>
<th>Central Fiscal Exp. (%)</th>
<th>Local Fiscal Exp. (%)</th>
<th>Central Fiscal Rev. (%)</th>
<th>Local Fiscal Rev. (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>30.7</td>
<td>69.3</td>
<td>55.0</td>
<td>45.0</td>
</tr>
<tr>
<td>2003</td>
<td>30.1</td>
<td>69.9</td>
<td>54.6</td>
<td>45.4</td>
</tr>
<tr>
<td>2004</td>
<td>27.7</td>
<td>72.3</td>
<td>54.9</td>
<td>45.1</td>
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<tr>
<td>2005</td>
<td>25.9</td>
<td>74.1</td>
<td>52.3</td>
<td>47.7</td>
</tr>
<tr>
<td>2006</td>
<td>24.7</td>
<td>75.3</td>
<td>52.8</td>
<td>47.2</td>
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<td>2007</td>
<td>23.0</td>
<td>77.0</td>
<td>54.1</td>
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<td>2008</td>
<td>21.3</td>
<td>78.7</td>
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<tr>
<td>2009</td>
<td>20.0</td>
<td>80.0</td>
<td>52.4</td>
<td>47.6</td>
</tr>
<tr>
<td>2010</td>
<td>17.8</td>
<td>82.2</td>
<td>51.1</td>
<td>48.9</td>
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revenues decrease sharply to only half of national fiscal incomes but had to shoulder about 70 per cent of total government expenditure, as Finance Minister Lou Jiwei pointed out (Lou 2008, 159). The fiscal reform greatly boosted the central government’s fiscal capacity at the expense of local resources, adding pressures for local authorities to chase high investment returns in order to solve fiscal tightness.

The decentralized fiscal system forces local bureaucrats to seek to protect local interests. Jae Ho Chung figures out three frequently used coping strategies by local bureaucrats: “pioneering”, “bandwagoning”, and “resisting” (Chung 2000,7), while I would add a fourth: “competing”. Under normal circumstances, “bandwagoning” is the most common approach when local cadres deal with central mandates. “Pioneering” happens when local implementers “go far ahead of others” in carrying out central policy (Chung 2000, 7). When coping with policies that may extract local resources without generating fast returns, such as the policies that aim to support the rural areas, bureaucrats frequently adopt the “resisting” strategy – such as investing less on public goods as planned, changing the use of funds to other areas than rural, or engaging in certain fraudulent practices to deceive the upper authority. For example, local cadres were found to collude with tax officials in their jurisdictions to be “lax in tax auditing”, so as to allow them to turn in fewer tax revenues to the center (Choi 2016). But local bureaucrats also often engage in the “competing” behavior for their own interests, such as competing for career promotion, approval of major projects from the central authority, or more fiscal transfers from the center.

Second, China’s political-administrative system is featured with both vertical and horizontal lines of control (called “tiao” and “kuai”). Below Beijing, there was a “dual vertical chain of command” of both Party and government throughout the bureaucratic system - from province down to township (Bernstein and Lü 2003, 84). Local government agencies report
vertically to the central agencies as well as horizontally to their corresponding Party and government leaders in the local territories. The complex structure of governance effectively reduces centralization of government power as local influence often overrides the authority of central agencies, leading to local protectionism and autonomy. The fragmented *tiaokuai* cadre system creates more incentives for bureaucrats to “pursue their own ‘minor public interests’ at the expense of the public interest”, which became “a major source of peasant burdens” during the reform era (Bernstein and Lü 2003, 84-85).

Third, the local cadre evaluation system has had significant impact on bureaucrats’ behavior, as evaluation of their performances based on this system would largely decide the prospect of their political careers. To some extent, political promotion offers greater attractiveness to local officials than any immediate economic benefits, although these two goals often intertwine with each other. Even as the administrative system is largely decentralized and fragmented, the cadre evaluation system serves as a strong tool for the central authority to retain control over local bureaucrats to ensure its prioritized policies are well implemented.

The Party’s organization department is responsible for designing the score sheets to highlight the central authority’s priorities, reflected in the evaluation system as “veto targets”, “hard targets” and “soft targets” respectively (Ong 2012, 78). Certain mandates, such as maintaining social order, are often made as “veto targets” that must be met, reflecting the emphasis of the Party state on eliminating potential threats to its legitimacy. “Hard targets” are “quantifiable binding targets”, such as GDP growth and tax revenue. These performance-based targets are the main factors that decide cadres’ political career as long as local social stability is maintained. Other factors linked to cultural or social development, such as health-care provision, are usually hard to be quantified and are made as “soft targets” (Ong 2012, 78). Under such a cadre evaluation system,
bureaucrats have great incentives to put economic growth as their high priority, probably just next to the mandate of maintaining social stability. Based on rational calculation of benefits and costs, local officials are inclined to allocate as many resources as possible to the areas that can generate fast economic growth while decreasing the resources invested in public goods, as long as they meet the minimum requirements.

In order to push local bureaucrats to promote rural growth and reduce regional imbalances, Hu amended the evaluation system in order to bring the system in line with the requirements raised by the “Outlook for Scientific Development” (Central Organization Department 2009). However, his reform on the evaluation system was not thorough enough to change the incentives for local cadres to pursue economic growth. GDP remained the most important indicator gauging cadres’ performance. Compared with improving education and other social goods provision, cadres found it easier to chase higher GDP growth through launching major investment projects.

Fourth, a lack of an effective budgetary-monitoring system to supervise and restrict the use of fiscal funds also encourages local governments to become adventurous interest-seekers. Researchers in a World Bank paper point out that the execution of budget was not strictly monitored in China, although the National People’s Congress (NPC), the legislature, is authorized to approve the budget. They argue that the State Council emphasizes “more strongly” on fiscal policy issues than the fiscal discipline. According to the report, “one factor that has facilitated the broad use of administrative discretion in China has been the relatively weak institutions of budget execution and ex post budget audit and control” (Martinez-Vazquez et al 2008, 84). Ma Jun, now the chief economist at People’s Bank of China’s research bureau, points out in a paper that since the budgetary reform of 1999, the National Audit Office (NAO) begun to play an important role, in addition to the NPC, to ensure that budget is implemented “in conformance with regularity and
economy” (Ma 2009). But Ma also notes that developing financial accountability without election faces constraints and limitations partly because of “the lack of legal authority for budget revision, and delegates only serving part-time”. In addition, the non-elected delegates of the legislature “may lack sufficient incentive to exercise the power of the purse” (Ma 2009). I will discuss in a case study about local bureaucrats engaging in rampant misuse of funds despite the existence of the auditing system.

In sum, under the Chinese local federalism system, local bureaucrats’ behavior patterns are greatly influenced by the heavy fiscal spending burden, soft budget restraints, a GDP-focused evaluation system, and the overlapping reporting lines in the political governance structure that basically gives local officials more autonomy in deciding economic activities in their jurisdictions. The case studies below further analyze specific local responses to different central policies.

Section 3: Alternative Explanations

I emphasize that local federalism is not the single most critical variable causing inequality – neither in Hu’s era, nor in any times or any countries. China’s inequality issue is inarguably driven by multiple economic and political factors. Scholars have identified economic and social factors that influence inequality, including asset ownership, migration, and income mobility across generations (Li et al. 2013, 37).

Widening inequality could be a result of economic growth, as some argue, because urban incomes could grow faster than the pace of rural incomes (Luo and Sicular 2013, 198) (Brandt and Rawski 2008, 734-7). The long-existing hukou policy, which governs China’s relatively rigid household registration system, is also blamed for limiting the mobility of migrant workers in China,
creating barriers for farmers to receive better education to get higher-paid jobs, hence increasing the urban-rural inequality (Montgomery 2012) (Li et al. 2013).

Scholars have also dug into certain political discourse to explain stalled reforms that cause inequality to widen. Path dependency is often cited as a hindrance for the CCP leadership to overhaul existing political institutions (Lin 2004). Meanwhile, many scholars also highlight Hu’s relatively weak power base as a major challenge for him to deliver his own policy thinking. As Kerry Brown put it, “Hu spoke, always, as part of a collective leadership, a man who delivered consensus. He never placed himself in the position of supreme leader” (Brown 2012, 200). Hu advanced his career through the system of the Chinese Communist Youth League (or tuanpai), a faction with a more populist background. That means he had to seek consensus with the camp of powerful princelings when major policies were deliberated so as to ensure his leadership stability. Hu’s relative weakness was quite obvious and widely acknowledged.

It is undeniable that these political and economic factors added complexity on the research of inequality in China. These variables are not mutually exclusive while their influences are weaved into each other’s. They co-exist and interact with each other in a dynamic way.

However, these economic and political variables discussed above face various constraints. The power faction theory focuses primarily on exploring the potential conflicts at the center, while it is relatively weak in explaining local bureaucrats’ behavior, especially after Hu’s policy was endorsed by the central leadership and represented the collective decision at the top. Meanwhile, the relationship between growth and inequality is not linear. Even as growth rates at some regions might be on par with the levels in other regions, their inequality levels can differ greatly due to demographic and geographic distinctions. Meanwhile, despite some fluctuations, China’s migration and other social policies stayed largely intact during both Jiang’s and Hu’s eras.
Therefore, these explanatory factors are wanting. There should exist another fundamental cause that can better explain the puzzle reflected in the widening inequality level despite Hu’s policy that sought to address urban-rural imbalances.

This paper seeks to explore structural reasons in the political system that can be generalized to show certain regularities in the way policy outcomes are influenced. I argue that local federalism has profound impact on the central-local relationship that directly affected the implementation of central mandates. This is not to deny the capacity of other explanatory factors in assessing the reasons behind the widening urban-rural income gap. I argue that the local federalism theory has a particularly good capacity in explaining the different local reactions to the respective policies introduced in the eras of Hu and Jiang. It reveals the systemic problems in China’s decentralized political process that affects the incentives that drove local behavior.

Section 4: Pro-Rural Policies under Hu

When Jiang Zemin stepped into office after the 1989 Tiananmen Incident, his administration put significant emphasis on promoting economic growth in order to rebuild the CCP’s shrinking legitimacy hurt by the authoritative crackdown on the student movement. The CCP launched SOE reforms with the aim to strengthen big SOEs while closing off millions of smaller enterprises. They also granted favorable tax policies to lure foreign investment into the coastal regions. These policies helped China achieve an average of 10 per cent annual growth. Through the pro-growth Shanghai model Jiang managed to form his influential Shanghai clique (the Shanghai Gang), an elitist coalition made up of some powerful princelings, prominent government officials, “entrepreneurs, the emerging middle class, and the economically advanced coastal provinces” (Li 2005). However, the model was criticized by Huang Yasheng for its
“systematic and deep anti-rural bias”, which “produced rapid GDP growth but poor household income growth” (Huang 2008, 212). Rural discontent rose sharply over issues including “excessive taxation, arbitrary government policies, corruption among rural cadres, and the requisition of farmland without adequate compensation for affected peasants” (Lam 2006, 78-79). The social problems in Jiang’s tenure “had, to some, called into the question the very legitimacy of the CCP, a political party that was supposed to bring prosperity to the people” (Donaldson 2011, 59).

Unlike Jiang’s primary focus on the affluent coastal region, Hu elevated his political career through the Youth League (the tuanpai faction) and from leading the much poorer provinces of Gansu, Guizhou, and Tibet. He sought to depart from Jiang’s elite policy and craft an image as a populist leader who was more sympathetic towards people living in the backward inland provinces with vast rural economies. He pledged to improve the livelihoods of the poor in order to narrow their income gap with the rich living in the urban areas. His signature policy, dubbed as the “Outlook for Scientific Development”, carried the strategic vision of promoting a harmonious society with more balanced regional development and greater income equality. “His rhetoric about social justice reflects his own political background and regional ties” (Li 2008).

Hu laid out his new reform plans at the sixteenth third plenary of the CCP’s Central Committee in October 2003 and vowed to adjust economic structure, improve farmers’ income, and correct a distorted redistribution relationship (Central Committee 2003). He stressed that boosting rural income and solving problems in the rural areas should be made as “the priority among priorities” at the Central Rural Working Meeting he chaired in January 2003 (Sun 2003).

Since then, China’s government gradually expanded the rural tax reform introduced as early as in 2000. Starting 2006, the government ended the agricultural tax in place for more than two thousand years, a move that reduced financial burden for farmers by over 100 billion yuan
annually from the level in 1999. The removal came three years earlier than previously scheduled (Xinhua 2006).

Another major reform launched by Hu was the tax-for-fee reform, seeking to correct “a vicious cycle” of local governments charging farmers irregular fees to replenish their stretched fiscal coffers as a result of the 1994 fiscal reform (Yep 2004, 47). The tax-for-fee reform was aimed at replacing irregularly charged, off-budgetary fees with more transparent taxes so as to better regulate local bureaucrats’ fee collection practices. Before the reform, farmers were subjected to up to sixty different types of fees and levies by local authorities arbitrarily, which were often in theory illegal but not as closely monitored as tax revenues by their upper authorities (Lam 2006, 80). The government launched a pilot reform to reduce rural fees and levies since 2001 in the Anhui province before expanding the experiment to more regions and eventually to the whole nation in March, 2003 (State Council 2003).

Hu also introduced other policy steps, including increasing credit support for the agricultural sector, stepping up rural infrastructure investment, accelerating poverty reduction, and boosting fiscal support to the countryside through further adjustment on national income redistribution (Sun 2003).

These policies introduced by Hu were extensive and carried clear goals of narrowing the rural-urban inequality and boosting rural development. Did these policies reach the goals? In the following section, I examine a range of official statistics while also incorporating various government statements and media reports to illuminate the policy outcomes.
Section 5: Statistics of China's Inequality and Urban-Rural Income Gap

In 2012, Hu made a speech at the eighteenth Communist Party Congress to wrap up his decade-long tenure, saying that he had stuck to the “people-centered principle” and improved people’s livelihoods (Hu 2012). However, he acknowledged that the country’s agricultural foundation remained weak, the urban-rural income and development gaps remained large, and social conflicts was intensifying markedly (Hu 2012). The remarks indirectly admitted that the pro-rural policy failed to reach the desired effects.

Official statistics showed income equality between the rural and urban areas did not improve after Hu rolled out the policies. Instead, it worsened. I select two sets of main indicators for this research: 1) the Gini-Coefficient index, a key gauge of income gap. As the quality of Chinese official data often faces skepticism from independent observers, I also compare the result with the data compiled by university researchers; 2) the ratio of urban-rural income, as well as the gap between urban and rural residents’ absolute incomes.

1) Gini-Coefficient Index

I compile the chart of China’s official Gini-Coefficient numbers in Figure 2\(^1\). It shows that the income gap during Hu’s tenure (2003-2012) stayed consistently higher than the levels in Jiang’s era, despite a moderation in the pace of rise.

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\(^1\) The National Bureau of Statistics has not published a complete set of its official Gini-Coefficient index. For example, it published the 2002 rural and urban Gini indices separately without giving a national number. I adopted the Gini figures for 2002 from the research of professors led by Li Shi, whose results for both rural and urban numbers were very close to the official data. The bureau published an article “Look at the Income Gap between the Rich and the Poor Based on Gini-Coefficient Data” in 2001 in the China National Conditions and Strength journal, which provided the Gini indexes before 2000.
The Gini indices since 2002 have stayed above the international danger level of 0.4, indicating growing risks for social unrests. Even though the indices trended down gradually after the global crisis, they remained markedly higher than the level before Hu stepped into office. The statistics bureau did not publicize the 2001 official Gini figure, but a report published in 2011 noted that the Gini index in 2000 was at 0.412 (NBS 2011). Even considering there might be a time lag between policy introduction and changes in the Gini index, it remains clear that the income inequality was on a generally widening trajectory during Hu’s era. This result is in line with the observation that Hu’s policy did not successfully narrow the gap of income between the rich and the poor.

Researchers led by Professor Li Shi at Beijing Normal University, who is dubbed as “China’s Mr. Income Redistribution” due to his intensive research in this area, documented the country’s inequality levels during 2002 and 2007. They came to the same conclusion that inequality widened despite Hu’s policies that aimed at narrowing the income gap. Furthermore, Li’s research in recent years got a much higher estimate on the Gini data than the official figures. He notes that the Gini-
Coefficient figures indicating the wealth gap rose to about 0.7 by 2013 from about 0.5 in 2002 (Li 2017). In explaining the widening of the Gini-Coefficient index in China, Li points out that “the benefits of growth were not shared equally: richer groups benefited more than did poorer groups” (Li 2013, 4).

Yu Xie and Xiang Zhou, two researchers with the University of Michigan, Ann Arbor, come to the same conclusion that China’s income inequality was much higher than the official data indicate for the Hu’s era, rising to well above 0.50 around 2010, after drawing on multiple data sources, including data from Renmin University of China and the Hong Kong University of Science and Technology, Peking University, Southwestern University of Finance and Economics, as well as Sun Yat-sen University (Xie and Zhou 2014). They estimate that about 12% of the overall income inequality was due to differences across provinces, while the rural-urban income gap accounted for more than 10% of the income inequality in China.

Based on the arguments and the data above, we can at least conclude that China’s wealth gap had kept widening during Hu’s tenure, as both the official and the private data point to. While the Statistics Bureau’s data showed some moderation in the pace of rise in the Gini-Coefficient, independent economists’ findings reveal the actual rise in the income gap might have been much sharper. As Li notes, underestimation is a common phenomenon in the countries around the world. “The official Gini-Coefficient data tend to be underestimated in almost all countries. Nobody can clearly tell to what extent they are underestimated. The problem in China may be even more serious. An important reason leading to the underestimation of the income gap is the difficulty to get hold of the rich people’s income and wealth data” (Li 2017).
2. *Urban-Rural Income Gap*

I compile the chart as below on the ratios of urban-rural per capita income (Figure 3), which shows a steady pickup during most years in Hu’s tenure. Even in 2012, when the gap already narrowed a bit from the peak levels seen during the global financial crisis, the ratio (2.95) remained higher than the 2.76 seen in 2002.

### Table 2. Urban-Rural Income Ratio Excluding Inflation (Source: China Statistics Yearbook 2015) \((1985 \text{ CPI} = 1)\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Urban per capita income (yuan)</th>
<th>Rural per capita income (yuan)</th>
<th>Urban CPI</th>
<th>Rural CPI</th>
<th>Urban real Per capita income (yuan)</th>
<th>Rural real per capita income (yuan)</th>
<th>Urban/rural real ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>739.0</td>
<td>398.0</td>
<td>1.00</td>
<td>1.00</td>
<td>739.0</td>
<td>398.0</td>
<td>1.86</td>
</tr>
<tr>
<td>1996</td>
<td>4839.0</td>
<td>1926.0</td>
<td>3.49</td>
<td>3.14</td>
<td>1386.5</td>
<td>613.4</td>
<td>2.26</td>
</tr>
<tr>
<td>1997</td>
<td>5160.0</td>
<td>2090.0</td>
<td>3.60</td>
<td>3.22</td>
<td>1433.3</td>
<td>649.1</td>
<td>2.21</td>
</tr>
<tr>
<td>1998</td>
<td>5425.0</td>
<td>2162.0</td>
<td>3.57</td>
<td>3.19</td>
<td>1519.6</td>
<td>677.7</td>
<td>2.24</td>
</tr>
<tr>
<td>1999</td>
<td>5854.0</td>
<td>2210.0</td>
<td>3.53</td>
<td>3.14</td>
<td>1658.4</td>
<td>703.8</td>
<td>2.36</td>
</tr>
<tr>
<td>2000</td>
<td>6280.0</td>
<td>2253.4</td>
<td>3.56</td>
<td>3.14</td>
<td>1764.0</td>
<td>717.6</td>
<td>2.46</td>
</tr>
<tr>
<td>2001</td>
<td>6859.6</td>
<td>2366.4</td>
<td>3.58</td>
<td>3.17</td>
<td>1913.5</td>
<td>747.6</td>
<td>2.56</td>
</tr>
<tr>
<td>2002</td>
<td>7702.8</td>
<td>2475.6</td>
<td>3.55</td>
<td>3.15</td>
<td>2170.4</td>
<td>785.3</td>
<td>2.76</td>
</tr>
<tr>
<td>2003</td>
<td>8472.2</td>
<td>2622.2</td>
<td>3.58</td>
<td>3.20</td>
<td>2365.9</td>
<td>818.7</td>
<td>2.89</td>
</tr>
<tr>
<td>2004</td>
<td>9421.6</td>
<td>2936.4</td>
<td>3.70</td>
<td>3.36</td>
<td>2546.9</td>
<td>874.8</td>
<td>2.91</td>
</tr>
<tr>
<td>2005</td>
<td>10493.0</td>
<td>3254.9</td>
<td>3.76</td>
<td>3.43</td>
<td>2791.9</td>
<td>948.8</td>
<td>2.94</td>
</tr>
<tr>
<td>2006</td>
<td>11759.5</td>
<td>3587.0</td>
<td>3.81</td>
<td>3.48</td>
<td>3082.6</td>
<td>1030.2</td>
<td>2.99</td>
</tr>
<tr>
<td>2007</td>
<td>13785.8</td>
<td>4140.4</td>
<td>3.99</td>
<td>3.67</td>
<td>3458.2</td>
<td>1128.2</td>
<td>3.07</td>
</tr>
<tr>
<td>2008</td>
<td>15780.8</td>
<td>4760.6</td>
<td>4.21</td>
<td>3.91</td>
<td>3748.7</td>
<td>1218.0</td>
<td>3.08</td>
</tr>
<tr>
<td>2009</td>
<td>17174.7</td>
<td>5153.2</td>
<td>4.17</td>
<td>3.90</td>
<td>4116.9</td>
<td>1322.4</td>
<td>3.11</td>
</tr>
<tr>
<td>2010</td>
<td>19109.4</td>
<td>5919.0</td>
<td>4.31</td>
<td>4.04</td>
<td>4438.6</td>
<td>1466.2</td>
<td>3.03</td>
</tr>
<tr>
<td>2011</td>
<td>21809.8</td>
<td>6977.3</td>
<td>4.53</td>
<td>4.27</td>
<td>4810.9</td>
<td>1633.6</td>
<td>2.95</td>
</tr>
<tr>
<td>2012</td>
<td>24564.7</td>
<td>7916.6</td>
<td>4.66</td>
<td>4.38</td>
<td>5276.1</td>
<td>1808.3</td>
<td>2.92</td>
</tr>
<tr>
<td>2013</td>
<td>26955.1</td>
<td>8895.9</td>
<td>4.78</td>
<td>4.50</td>
<td>5642.8</td>
<td>1976.6</td>
<td>2.85</td>
</tr>
<tr>
<td>2014</td>
<td>29381.0</td>
<td>9892.0</td>
<td>4.88</td>
<td>4.58</td>
<td>6024.1</td>
<td>2159.1</td>
<td>2.79</td>
</tr>
</tbody>
</table>
Although the pace eased from 2002 and the earlier years, the gap of absolute incomes between urban and rural residents widened to a three-decade record at 9,646 yuan in 2007, according to Agricultural Minister Sun Zhengcai, who acknowledged that “the foundation for farmers to increase income remains relatively weak” (People’s Daily 2008). Professor Li Shi’s team also notes the similar trend. Per capita urban household incomes were, on average, more than three times rural incomes by 2002, which widened by roughly 20 per cent over the 2002-2007 period. As a result, urban incomes by 2007 were 3.7 to 4.0 times those in rural areas (Li 2013, 32). These key gauges on inequality reveal the dissatisfying outcomes of Hu’s pro-rural policies.
Section 6: Case Studies

In this section, I conduct several case studies to test the resilience and adaptability of local federalism in affecting central policy outcomes. In case A, I analyze how local bureaucrats responded to Hu’s rural tax-for-fee reforms. Case B examines local behavior patterns during the global financial crisis, when Hu introduced massive stimulus and ordered funds to be prioritized to the rural sector. This case illuminates a situation where local federalism’s impact on central policy outcomes was remarkably amplified due to the extraordinary crisis. In case C, I discuss why Hu adopted a sharply different policy on poverty reduction when he was the Party chief of China’s Guizhou province, even as neighboring provinces chose to pursue high economic growth. While Hu’s behavior appears exceptional at the first glance, I argue that its rationale is fully in line with the patterns explained by the theory of local federalism.

Case Study A: Rural Tax-for-Fee Reform and Sannong Spending – “Resisting”

According to the theory of local federalism, local bureaucrats tend to respond with a “resisting” strategy to a central mandate when it risks extracting local financial resources. The rural tax-for-fee reform was considered as such a mandate. The reform was designed by the central government in order to reduce the numerous off-budget fees collected locally and replace them with more transparent taxes. Local authorities’ predatory fee-levying practices had “soured local state-peasant relations, eroded the provision of local public welfare goods, and … deepened the problems of fragmented authoritarianism” (Cheng and Debora 2005, 9).

While the tax-for-fee reform cut each farmer’s burden by 30 per cent annually compared with the levels before the reform (Cai 2003), their real financial burden was not effectively eased because many cash-stretched local governments adopted “resisting” strategies to offset the original burden.
policy effects. County- and township-level governments that faced particularly heavy burden were found to levy new fees under other names. In the decentralized fiscal system, the lower the level of a local administration is, the smaller share of fiscal revenue it can receive from its upper authorities. The county- and township-governments shared only 21 per cent of the national fiscal revenues, but they needed to finance the wages of local government staff whose population accounted for 71 per cent of the total local officials employed in the country (Cai 2003).

A Xinhua News Agency report revealed various tactics adopted by local bureaucrats in China’s central provinces of Henan and Hunan, two large grain producers, in order to cope with the shrunk local fiscal revenues as a result of the rural reform. A woman at the Zhongmou County in the Henan Province, for example, said she was required to buy a tutorial material while registering for marriage at a local department at a cost of 50 yuan, which had been originally priced at just a few yuans. For a birth certificate, she was charged by local officials as high as 500 yuan (Zi and Hu, 2002), which is close to the average per capita rural income in the province, at 6,604 yuan a year, or 550 yuan a month (Henan 2012). Local bureaucrats also made various attempts to escape supervision from upper authorities using tactics such as collusion, false reporting, and misuse of funds. “Under-reporting is common, as is illegitimate use of the funds for purposes other than those specified” (Yep 2004).

Expanding basic education in the rural areas was also part of the Hu’s policy goals as it would offer migrant workers better chance to increase income. However, the tax-for-fee reform extracted the already stringent local fiscal resources and severely dragged down local expenditure on education. To cope with the pressures, local governments would “resort to various counter-offensive tactics in order to minimize expenditures” on education (Yep 2004). In the Nan County in Hunan, the local government had fiscal capacity of less than 80 million yuan a year but had to
spend 65 million yuan alone on paying wages to teachers. Facing the high fiscal pressures, the county government began charging an extra of nearly 200 yuan fees on students’ families, which triggered petition movements by students’ parents in several townships (Zi and Hu, 2002). In the Anhui province, one-third of its 61 counties could not pay teachers’ wages on time, which hurt local education quality and indirectly affected the prospect of rural income growth.

Even in more affluent regions, where land sales were high, local governments allocated few funds from the land sales revenues to the sannong areas, referring to the “three-rural” areas addressed by Hu’s rural policy: agriculture, farmers and the countryside. In 2007, as the Ministry of Agriculture disclosed, public spending in the sannong areas only grew 23 per cent, far behind the 32.4 per cent growth in national fiscal revenues and also below the growth of national average fiscal spending at 23.2 per cent (People’s Daily 2008). “The national fiscal spending on sannong has stayed inadequate for long, mainly because local financing does not meet up with expectations,” Xu Xiaoqing, head of the rural economy research department of the State Council Development Research Center (DRC), and Hu Hengxiang, an inspector under the National Development and Reform Commission, both said (Jiang 2014). Han Jun, vice director of the DRC, said that while local governments collected more than 3 trillion yuan worth of revenues from land sales, only less than 5 per cent of the income was spent on sannong in 2011 (Jiang 2014).

A survey (CIRD 2007) conducted by the China Institute for Reform and Development among the country’s rural experts confirmed the problems and characteristics of the Chinese local federalism system that I outline in this paper. In the survey, 82.6 per cent of the rural experts cited the GDP-focused cadre evaluation system as the root cause of insufficient investment in rural public services. The same proportion believed the rural policy failure was “the inevitable result of the mismatch in the administrative power and fiscal capacity between the central and local, and
between the upper and lower authorities” (CIRD 2007). About 61.4 per cent pointed out that local governments did not spend enough funds in the most needed areas, reflecting their resistance to the central mandate, while 60.4 per cent noted local misuse of rural funds due to the opaqueness of the rural funds transfer system. Finally, 47.3 per cent of the experts mentioned the overly complex administrative levels and reporting lines as a reason for hindering policy implementation (CIRD 2007).

**Case Study B: “Great Leap Forward” in Crisis – “Competing” and “Resisting”**

In this case study, I argue that local governments adopted both a “competing” and a “resisting” strategy in response to Hu’s 4 trillion-yuan stimulus program rolled out to stem a sharp economic growth slowdown amid the 2008 global financial crisis, which fueled a funding bonanza across the country. The unprecedented crisis brought rare opportunities for local bureaucrats to boost their economic interests, with local federalism playing a greatly amplified role in affecting central policy outcomes. Local bureaucrats’ campaign to set ambitious local growth targets supported by a lending binge shared commonalities with the “Great Leap Forward” movement launched by Chairman Mao Zedong during 1958-1965, an event driven by excessive grain and steel output targets (EIU2009).

While rolling out the stimulus package, the center demanded provincial governments to develop their wish lists for investment based on feasibility study, which were to be submitted by the NDRC’s local branch officials to the central NDRC for approval. The center agreed to finance 30 per cent of the 4 trillion yuan stimulus funds, while local officials and enterprises were asked to come up with the rest of the funding. Meanwhile, the central bank relaxed monetary policy to support the new projects. Such an arrangement induced frenzy “competing” practices among local
bureaucrats, with officials from various provinces occupying all the hotels around the NDRC office in Beijing to lobby for project approvals, a move dubbed as 跑部钱进 (pao bu qian jin, or run into ministries to grab money). Local investment “wish lists” added up to an “astronomical” 18 trillion yuan (EIU 2009), while some provincial governments set double-digit GDP growth targets for 2009, bringing that year’s actual growth to 9.1 per cent, beating the official target at 8 per cent. The local “competing” practices severely hurt the central government’s efforts to rein in the pace of investment growth amid concerns of economic overheating.

Although Hu stressed that the economic stimulus funds should be prioritized to support agricultural development, build rural infrastructures, and invest in social services, his instruction was largely ignored as bureaucrats engaged enthusiastically in launching new infrastructure projects that would rapidly push up local GDP growth. “Investment in social services… continued to be overshadowed by direct subsidies by the central government to industry, notably to labor-intensive sectors” (EIU 2009). While the central authority urged local governments to increase rural finance, among the initial 100 billion yuan special earmarking of grants to be spent by the end of the first quarter of 2009, only 5 billion yuan was used for improving rural infrastructure (EIU 2009).

However, due to the stretched local fiscal resources, land sales became a primary source for boosting local coffers. Once local governments got the greenlight for new projects from the center, they scrambled to sell new land plots at record high prices and used their land sales revenues as collaterals to borrow money from banks to finance their infrastructure projects. Nationwide bureaucrats adopted another “resisting” tactic to sidestep a central policy that banned them from taking debt directly, as they set up more than 6,000 local government-owned financing platforms (LGFPs) across the country to raise funds. At the end of 2010, the debt borrowed by local
governments through LGFPs amounted to 4.97 trillion yuan, or two-thirds of the sum of total local government revenue and transfers from the central government, an International Monetary Fund report finds (Lu and Sun 2013).

The National Audit Office points out that a majority of local government debt was off-budget and the use of funds was opaque. The agency discovered 108.3 billion yuan of irregular fund use by local governments in a nationwide auditing in 2011. Some local bureaucrats invested their funds illegally into the capital market or the real estate market to chase high, short-term returns, or used them to construct fancy government buildings or entertainment sites. Some local governments breached the national policy to invest into highly polluting and energy-intensive projects or build redundant construction projects (NAO 2011). Some local bureaucrats faked the entire project to lobby for central funding, or duplicated projects in rural areas as projects under the “rural” name were more likely to get central approval. Many locally proposed projects had insufficient feasibility studies (Lu and Sun 2013). Such “resisting” behavior seriously hurt the central authority’s policy goals and generated high financial risks, property bubbles, and excessive industrial capacity. It also damaged Hu’s intention to use the massive stimulus funds to support the rural areas. The Gini indexes showed income inequality soared to a peak during the crisis period. So did the urban-rural income gap.

While the National Audit Office has played an increasingly important role to supervise local funding and restrict irregular local behavior, a nationwide large-scale investigation like the one in 2011 was rare. The agency also lacks enough authority to ensure officials are disciplined after their irregularities are discovered. Another reason that made it hard for regulators to monitor budget spending during the crisis period was because the NDRC only unveiled approved projects “batch by batch” without disclosing details about each project. The IMF speculates that more
powerful ministries and provinces might have obtained greater shares of funding from the NDRC as they had more bargain power at the center or maintained better relationship with the agency. Therefore, “an increase in transparency risks turning behind-the-scenes lobbying into on-stage fighting—a spectacle that the central government in Beijing wishes to avoid” (Lu and Sun 2013). The NDRC’s opaque disclosure of information also allowed local bureaucrats to easily fake contracts or projects in order to win more funds from the center.

While the market-preserving feature of local federalism in China has pushed forward the country’s economic reforms and promoted high economic growth (Montinola, Qian, and Weingast 1995), this case study shows how the federalism system could hurt central policy targets especially when certain policies do not align with local interests. The problem might loom larger as China’s economy has entered the so-called “new normal” stage that does not favor a quantitative growth but emphasizes more on good quality and expansion of social welfare coverage.

**Case Study C: Hu in Guizhou – “Pioneering” and “Bandwagoning”**

After discussing the first two cases, we can clearly figure out how local federalism creates incentives for bureaucrats to chase their own interests while they tend to adopt either “competing” or “resisting” strategies to distort the effects of some central mandates aimed at providing more public goods to the society. But a new puzzle arises as it seems to be hard to use the federalism theory to explain Hu’s unique behavior while he acted as the Guizhou provincial head. This case study focuses on Hu’s practices and strategies as a local government leader as he responded to the central policy mandates.

John A. Donaldson seeks the answers to the puzzle by studying the different growth models in Yunnan and Guizhou, the two neighboring provinces in Southwestern China that shared similar
geographic, industrial and economic fundamentals. Unlike Yunnan and most other provinces that favored a developmental state growth model, Hu “sought to temper some of the GDP-first policies of his predecessor” by pursuing a micro-oriented state model in favor of reducing income inequality, improving rural residents’ livelihoods, and focusing on the environment (Donaldson 2011, 59). He expanded rural roads in Guizhou while also allowing the poor to participate in the development of the tourism and mining industries, as the neighboring provinces were pursuing rapid economic growth model with the poor largely excluded. Hu’s strategy successfully improved inequality in the Guizhou province. (Donaldson 2011, 163).

Table 3 compiles the GDP growth data during 1982-1988, which shows Guizhou’s GDP growth rate lagged behind that of Yunnan as well as the national average during most of Hu’s years in Guizhou from 1985 to 1988. However, Guizhou recorded the nation’s third fastest reduction in poverty rate thanks to the pro-rural policies, compared with a rise in the poverty rate in Yunnan (Donaldson 2011, 6).

Donaldson attributes the different policy approaches among provincial policymakers to a combination of factors, including “central constraints and opportunities, characteristics of provincial officials, and (to a lesser extent) initial conditions” (Donaldson 2011, 57). Viewing the
differences from multiple aspects as Donaldson suggests can certainly help us avoid simplicity in interpreting the complex situation.

I argue that local federalism offers another important, and more systematic, explanation that illuminates the rationale of the seemingly exceptional behavior of Hu as a local bureaucrat. This fits into the “pioneering” strategy as outlined in the local federalism theory in this paper. Hu chose to promote income equity rather than purely chasing GDP figures. There are two alternative rationales to explain such a “pioneering’ behavior, as Chung argues. Pioneering may represent “voluntary” local experiments, which is captured later by the central government as it seeks a solution to a policy problem. Or alternatively, the central government designates local experimental sites as it sees certain local conditions as “most favorable” to carry out those pilot trials (Chung 2000).

Both rationales fit well into Hu’s case. First, Hu elevated his career through leading several of China’s poorest provinces – Gansu in Northwest, and then Guizhou in Southwest, followed by Tibet in the West. Hu’s people-oriented thinking emerged in no surprise since he had to tackle the serious poverty problems in these regions. His policy was to some extent his voluntary innovation supported by his rich experiences and expertise on reducing poverty. Such thinking was later written into the state policy after Hu took over the top leadership in 2002. Second, the center had shown tolerance of Guizhou being less in compliance with central dictates in order to make the province for certain experiments. Donaldson also mentions this in his book. Guizhou deviated from central policy partly because it was picked as a pioneer in agricultural policy designed to reduce poverty in the early 1980s. “By 1993, Beijing had apparently accepted and even supported some form of Guizhou exceptionalism, with central leaders such as Vice Premier Zhu Rongji overtly allowing and supporting provincial leaders’ attempts to reduce poverty, even at the expense
of economic growth” (Donaldson 2011, 55). Donaldson further points out that Yunnan officials were much more responsive to state policies promoting growth because Yunnan’s geographic location on the territorial border and its tobacco and tourism industries were of greater strategic meaning to the state. Therefore, the local interests align well with central mandates.

However, I argue that there is a third, probably the most important reason to explain Hu’s policy choice. His decision to pursue an exceptional policy was highly in line with his own political interests. By the time Hu was transferred to Guizhou after he headed Gansu, he was already widely treated as “a rising star not only in Gansu but nationally” thanks to recommendation and support from a powerful patron in Beijing - General Secretary Hu Yaobang (Lam 2006, 6). The theory of local federalism argues that, “finding a powerful and reliable sponsor or patron at higher levels seems to be the key to cadre appointments and promotions in the Chinese nomenclature system”, and if officials face great potential to get promoted, they “tend to exhibit different official behaviors” to distinct themselves from other political rivals (Zhong 2003, 107, 188). Hu’s top priority was to consolidate his tie with his biggest patron, Hu Yaobang, who broached the idea of people-centered humanitarian socialism in the 1980s when he was then the General Secretary of the CCP Central Committee (Zheng 2007b). Pursuing a less GDP-focused policy and taking efforts to promote income equality in Guizhou in response to the humanitarian thoughts of the top Party chief was a worthwhile bet for his political career and definitely a wise choice.

That said, even as Hu distinguished himself on poverty reduction in Guizhou, he did not completely disrespect the traditional local cadre evaluation system. The provincial GDP growth under him, while not impressive enough, was definitely not low. He also carefully avoided establishing a public image of being compliant. On the contrary, local Guizhou officials described Hu as “tight-lipped” on his own policy thinking and “conscientiously toed the line from
Beijing” on policies (Lam 2006, 7). This indicates that Hu also used the “bandwagoning” strategy to cope with most of the central mandates, besides the “pioneering” behavior on poverty reduction.

Section 7: Political Institution Reform under Hu

In the previous sections, I note that the top-down cadre evaluation system plays a significant role in affecting local behavior. While such a system is a unique way adopted by the CCP leaders to ensure control over local officials despite decentralized fiscal system, one may wonder whether local bureaucrats may also need to respond to the call from the grassroots under China’s political system. In a democratic regime, local officials are more accountable for the interests of their voters. If Hu had developed a rural electoral system to allow farmers’ voice to be heard, he might have had a better chance to create institutionalized checks to restrict local cadres’ behavior, hence altering the incentives generated by the growth-focused cadre evaluation system.

However, it turns out that Hu’s reform on the grass-roots electoral system was a superficial process “without meaningful democratic substance” (Gadsden 2006, 196), which failed to change the incentives under the local federalism system. After taking up the top leadership position, Hu vowed to strengthen the development of the “democratic legal system” and improve the “mechanism of autonomous governing by energetic villagers under the leadership of the Party organizations at villages” (Sun 2003). Local-level electoral experiments did take place, albeit on very limited scale, including the direct elections of top administrators in early 2004 in seven towns and townships in Yunnan, and some grassroots-level legislative campaigns participated by independent and “unofficial” candidates (Lam 2006, 115). Despite the limited progress, however, the experiments failed to “create a genuine self-governing or autonomous body working for the villagers” (Zhong 2003, 189-190). Hu also gave “no indication of any plans to upgrade the
elections on a regular basis or on a large scale” (Lam 2006, 116). What the regime wanted was capable young rural leaders who could help maintain social stability and economic development, rather than any village heads who might challenge policies from the upper authorities. “If an election failed to produce the right outcomes, intervention from above was clearly not ruled out… Village elections, in other words, were designed to strengthen the Chinese state not to weaken it” (Bernstein 2003, 208-209). A survey conducted by the Horizon Research in 2004 showed that “only 27.5 per cent of the respondents thought local governments cared about the people” (Huang 2006, 62). The analysis above shows that Hu failed to change the incentives that could shape local behavior either from the top-down or the bottom-up levels.

**Conclusion**

This paper examines deeply into the reasons behind Hu’s policy puzzle – why the extensive pro-rural policies introduced by Hu with a clearly stated rhetoric to pursue a more equitable and balanced development failed to meet its goals. The failure was reflected in the steadily widening urban-rural income gap and rising Gini figures. I argue that local federalism played a salient and systematic role in causing the poor outcomes of Hu’s pro-rural policies. I outline four key components that shape the unique Chinese decentralized political system, under which local officials adopt varying coping strategies depending on the magnitude of their own political or economic interests aligning with central policy. The four characteristics discussed in this paper are: a decentralized fiscal system that extracts local fiscal resources, a dual existence of the horizontal and vertical commanding lines that strengthens local autonomy, a GDP-focused cadre evaluation system that spurs local growth, and an inadequate supervisory system that turns local officials to
be risk takers. In the end, I also discuss Hu’s superficial reform to the grassroots election system fails to alter the way local officials are held account for.

Apart from Hu’s pro-rural policies discussed in this paper, there are various other policies aimed at providing public goods, which also demand close central-local coordination and may easily conflict with local interests. Environmental policy, for instance, has met many obstacles in local implementation in China. Local officials “lack incentives to invest in pollution control” because tackling environmental degradation would cost a lot on local economic growth (Bhatnagar 2014). They are reluctant to close polluting manufacturing plants, establish higher environmental standards at factories, or slow construction of energy-intensive projects (Bhatnagar 2014). State Environmental Protection Administration (SEPA) director Zhou Shengxian, after conducting a nationwide probe into implementation of environmental policy in 2006, criticized that local government leaders still retained the idea of “first development, then environment”. Local bureaucrats treated environmental protection as “important when speaking, less important when acting, and ignorable when busy”, Zhou said (Gu et al. 2006).

To test how local federalism worked to influence policy outcomes, I conducted case studies to show the various strategies, including “resisting”, “bandwagoning” and “competing”, adopted by local bureaucrats to cope with the rural tax-for-fee reform, sannong spending, and also the economic stimulus program designed to combat the 2008-2009 global financial crisis. I pick also the third case study examining the behavior of Hu while he was himself a local bureaucrat. That case study illuminates that local bureaucrats sometimes respond to central policy in an exceptional way by sacrificing economic benefits to promote public goods when the local province was picked for certain experiments or when bureaucrats find doing so would reap extraordinary political awards.
This paper’s study indicates that the key is to manage and change the incentives for local governments if the central authority hoped to improve the quality of policy execution when they find local interests contradict with those of the central government. Discussing the impact of local federalism on central policy outcomes is important especially as China has entered a transitional period where simply chasing fast economic growth without considering the environmental costs and social equality is no longer a feasible, sustainable and healthy model for the country. This raises higher requirements on promoting income equality, protecting environment, and expanding education and healthcare. How to reduce potential local resistances against these policies has been, and will continue to be a big challenge for China’s political leaders. Local federalism will serve as a valid theory to gauge and also predict the outcomes of future central policies. This paper should also inspire discussions on what methods and toolkits that political leaders can adopt to reform the local federalism system in order to ensure better policy implementation.
Bibliography


